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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs	)	CC Docket No. 97-160

AT&T COMMENTS ON PROPOSED METHODS FOR DETERMINING HIGH COST SUPPORT

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SUMMARY

In the *Universal Service Order*, the Commission adopted a methodology for calculating high cost support for non-rural LECs in which federal support will equal 25 percent of the difference between the forward-looking economic cost of providing the supported services and a nationwide revenue benchmark. Many parties have since proposed alternatives to the Commission's decision to fund 25 percent of high cost support, and the Commission now seeks comment on these alternative proposals.

In evaluating these various proposals, the Commission should not ignore one central reality. The major non-rural LECs -- the RBOCs, GTE, and SNET -- do not require *any* federal universal service support under present conditions. In the vast majority of these LECs' study areas, their local service revenues *alone* cover all of their universal service costs, without even counting the numerous other sources of support they have available (such as intrastate toll services, yellow pages, and wireless services). Therefore, regardless of what methodology the Commission ultimately adopts in this proceeding, it should immediately cancel all federal payments until these LECs can show that the contribution from these sources has fallen below the forward-looking economic cost of universal service.

Under such circumstances it is inconceivable that the Commission would even consider the implementation of any new universal service system in which federal funding would increase. Yet that is precisely what will occur on January 1, 1999 if the Commission implements its proposed methodology, in which support is calculated on a wire center basis.

An increase in the federal fund of that magnitude is entirely unwarranted, and for that and other reasons, the Commission should calculate universal service support on a study area basis instead. This single change is necessary because of the lack of local competition and will keep the federal fund at manageable levels.

In addition, the Commission should consider deferring implementation of the new system. The assumed predicate for the new system is the development of local competition, but local competition has not yet arrived. Under these conditions, implementation of a new plan is not immediately necessary and, indeed, would be counterproductive if federal funding increases as a result.

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AT&T COMMENTS ON PROPOSED METHODS FOR DETERMINING HIGH COST SUPPORT

Pursuant to the Commission's Public Notice released April 15, 1998 (DA 98-715), AT&T Corp. ("AT&T") hereby submits these Comments on proposals to revise the Commission's methodology for determining high cost support for non-rural LECs.

INTRODUCTION

In the *Universal Service Order*,[1] the Commission adopted a four-step methodology for calculating the amount of funding to be provided from the federal USF to non-rural LECs for high cost support. Under that methodology, federal support will equal 25 percent of the difference between the forward-looking economic cost of providing the supported services and a nationwide revenue benchmark. Many parties have sought reconsideration of the

[1] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-150, released May 8, 1997 ("*Universal Service Order*").

decision to fund 25 percent of high cost support, and over the past year a number of parties have proposed specific alternative methodologies. *See* Public Notice, pp. 4-6. The Commission now seeks comment on these alternative proposals.

In evaluating these various proposals, the Commission should not ignore one central reality. The major non-rural LECs -- the RBOCs, GTE, and SNET -- do not require *any* federal universal service support under present conditions. In the vast majority of these LECs' study areas, their local service revenues *alone* cover all of their universal service costs.[2] *See* Attachment 1. And that does not even count the numerous other sources of support they have available, such as revenues from intrastate toll services, yellow pages, and wireless services. These LECs are giant corporations that easily have the wherewithal to support their own universal service costs. Therefore, regardless of what methodology the Commission ultimately adopts in this proceeding, it should immediately cancel all federal payments until these LECs can show that the contribution from these sources has fallen below the forward-looking economic cost of universal service.

Under these circumstances, moreover, it is inconceivable that the Commission would even consider the implementation of any new universal service system in which explicit federal funding would increase. Yet that is precisely what will occur on January 1, 1999, if the Commission implements its proposed methodology in its current form. Under that methodology, federal universal service support will be calculated on a wire center basis, and

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[2] For these purposes, AT&T has aggregated all of a holding company's subsidiaries within a state to represent that company's "study area."

that aspect of the Commission's plan will cause the size of the explicit federal mechanisms to increase dramatically. *See* Attachment 2. An increase in the federal fund of that magnitude is entirely unwarranted. Therefore, the Commission should make one change in its methodology: it should calculate universal service support on a study area basis rather than on a wire center basis. This single change is necessary because of the lack of local competition and will keep the federal fund at manageable levels.

In addition, the Commission should consider deferring implementation of the new system. The assumed predicate for the new system is the development of local competition, but local competition has not yet arrived. Indeed, because of a number of changed circumstances that the Commission could not have taken into account when it originally selected the January 1, 1999 implementation date, significant local competition is now unlikely to develop in the foreseeable future. Under these conditions, implementation of a new plan is not immediately necessary and, indeed, would be counterproductive if federal funding increases as a result.

In all events, the Commission should evaluate all of the proposals in light of two important principles. First, the Commission should make sure that the size of the federal fund remains at a moderate, manageable level. As the Commission stated in the Report to Congress, it is just as important that the USF not be too big as it is not to be too small. *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report to Congress, FCC 98-67, released April 10, 1998, ¶ 229 ("*Report to Congress*") ("only the minimum amount of support necessary to achieve statutory goals should be collected"). If the fund is too large, the recovery mechanisms will themselves have a negative impact on universal service (*see id.*), and political support for the universal service program would be threatened. The Commission's focus should be on making sure the size of the explicit federal mechanisms does not increase more than necessary to replace the federal support that is currently implicit. Second, the program should be competitively neutral. The Commission should ensure that both funding and recovery mechanisms are competitively neutral, and that carriers continue to have the ability to recover their universal service contributions through a line item on the end-user's bill. *Report to Congress*, ¶ 229.

While AT&T's plan meets these tests, the remaining proposals that have been put forward in this proceeding resoundingly flunk. The other proposals are fundamentally flawed and each of them would dramatically increase the size of the federal USF. *See* Attachment 3. The enormous increases in the federal fund called for by these alternative plans, as explained above, would be completely unjustified and should be rejected. In the latter part of these Comments, AT&T describes the deficiencies in each of these proposals.

I. THE COMMISSION SHOULD WITHHOLD ALL EXPLICIT FEDERAL UNIVERSAL SERVICE FUNDING FROM THE MAJOR NON-RURAL LECS, AND IT SHOULD TAKE STEPS TO LIMIT THE SIZE OF THE FEDERAL FUND.

As shown below, the major non-rural LECs' local revenues are fully sufficient to cover all of their universal service costs, and as a result the existing federal universal service mechanisms, whether explicit or implicit, represent a pure windfall for these companies. The

Commission should therefore withhold payment from these companies until they can show that they no longer have sufficient revenues to offset those costs. Moreover, the Commission should make one change in its methodology so that federal universal service support does not actually increase on January 1, 1999: it should calculate support on a study area basis rather than on wire center basis, as it currently intends to do. In addition, the Commission should consider postponing implementation of the new universal service system. Local competition, which is the impetus for redesigning the universal service system, has not yet developed, and therefore the Commission need not allow itself to be rushed into the adoption of any new plan.

A. Federal Universal Service Support For The Major Non-Rural LECs Is Not Necessary And Should Be Withheld.

The major non-rural LECs -- the RBOCs, GTE, and SNET -- do not require any federal universal service funding. Therefore, regardless of what methodology the Commission adopts in these proceedings, it should immediately withhold all further federal universal service payments to these LECs.

It is clear that the major non-rural LECs' local service revenues (without resorting to access revenues) and contributions from other intrastate sources are more than sufficient to cover their universal service costs.[3] For 62 of the major non-rural LECs' 71 study areas, their

[3] This analysis further demonstrates that contribution from access charges is *not* necessary for support of universal service. Rather, the implicit support from access charges goes (continued...)

local service revenues *alone* exceed their forward-looking cost of service (and, indeed, exceed those costs by $23 billion in the aggregate). *See* Attachment 1. Even apart from local service revenues, these LECs have numerous other sources of support as well, including intrastate toll services, yellow pages, and wireless services. These other sources provide additional billions of dollars of support for universal service costs.

Under these circumstances, the payment of any explicit federal subsidies to these LECs is a pure windfall. *See* Letter from James B. Ramsey to Magalie Roman Salas, dated April 27, 1998, p. 4 (describing consensus of state commission staff members that "[t]he USF should target high cost funds to high cost areas, *but this should not result in company windfalls*" (emphasis added)). This windfall is antithetical to the purposes of Section 254 and would, if anything, frustrate the further development of local competition. These LECs are large corporations that easily have the means to cover their own high cost needs from local and associated state revenues. The Commission should not ignore that reality.

Therefore, although the Commission should continue to *calculate* high cost support according to whatever methodology it adopts in this proceeding, it should nonetheless withhold *payment* of that explicit federal high cost support to the major non-rurals in

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[3] (...continued)
directly to the major LECs' stockholders instead. Therefore, the Commission should immediately prescribe access charges at cost-based levels. *See Request for Amendment of the Commission's Rules Regarding Access Charge Reform and Price Cap Performance Review for Local Exchange Carriers*, RM No. 9210, Consumer Federation of America Petition for Rulemaking (filed December 9, 1997); *Tariffs Implementing Access Charge Reform*, CC Docket No. 97-250, MCI's Emergency Petition for Prescription (filed February 24, 1998).

recognition of the fact that it is not necessary given the sufficiency of existing revenue sources. The withholding of payment to these LECs would continue until a LEC can demonstrate to the state commission (PUC) that its local service revenues and contribution from other state sources have fallen below its forward-looking cost of service, and the PUC authorizes the release of the federal high cost support.

B. The Commission Should Modify Its Methodology So That Support Is Determined On A Study Area Basis Rather Than A Wire Center Basis.

Under the Commission's methodology scheduled to be implemented on January 1, 1999, explicit federal universal service support will substantially increase. This increase is due entirely to the fact that, under the Commission's current methodology, support is calculated at the wire center level. As shown below, such an increase would be entirely unwarranted. The solution is for the Commission to modify its methodology to calculate support at the study area level.

In the *Universal Service Order*, the Commission adopted a basic four-step methodology that was, in most respects, correct and should be retained: (1) calculate forward-looking economic cost; (2) establish a nationwide revenue benchmark; (3) calculate the difference between forward-looking economic cost and the benchmark; and (4) the federal USF will fund 25 percent of that difference. *See* Public Notice at 3. Moreover, in its *Report to Congress* the Commission reaffirmed two other important features of its original plan, which should also be retained. First, support for high cost areas should be assessed on carriers' interstate and international end-user revenues. *See Report to Congress*, ¶ 128. Second, the federal plan should remove high cost support from implicit interstate mechanisms and recover that support from explicit interstate mechanisms. *See id.*, ¶ 230. As the Commission ably explained in the Report, to ensure the removal of implicit subsidies, there must be a corresponding offset to access charges (to the extent that access charges continue to be priced above cost-based levels) for all new explicit federal universal service funding.

The Commission should modify its methodology, however, in one respect: it should calculate support on a study area basis rather than on a wire center basis. Providing support on a wire center basis, as the Commission currently intends to do, would dramatically expand the size of the existing high cost mechanisms for the non-rural LECs. If the Commission uses the HAI model as the cost proxy model for calculating the 25 percent federal support, funding for the major non-rural LECs would increase *fifteenfold*, from $28 million (under the study area approach) to $433 million (under the wire center approach). *See* Attachment 2. Support for all non-rural LECs would increase from $44 million to $529 million. *See id.*

Expanding the USF by a *half billion dollars* for the non-rural LECs would be completely unjustified and, as explained above, would jeopardize political support for the USF program. In light of the fact that the major LECs do not need any federal funding at all, it is inconceivable that the Commission would implement a methodology that would have the effect of increasing federal support so dramatically. Nor is there any theoretical justification for the wire center approach. As the Commission itself recognized in the *Universal Service Order* (¶ 251 & n.669), universal service support should not be calculated at a greater level of geographic disaggregation than unbundled network elements ("UNEs") are. The majority of states have established a single, statewide rate for UNEs, and certainly no state has disaggregated UNE rates to the wire center level.[4] The FCC's proposed system, if evaluated at the wire center level, would inevitably create opportunities for arbitrage. *See id.* at n.699. Indeed, as shown in Section I.C below, because of the lack of competition, there is absolutely no need to calculate support at anything other than the study area level.

For all of these reasons, the Commission should simply continue to calculate high cost support at the study area level under the new methodology, as it does under the existing mechanisms. By making this one change, the Commission could ensure that the size of the new USF will remain at manageable, politically viable levels. Regardless of this change, however, the Commission should immediately withhold payment of explicit federal funding to the major non-rural LECs, as explained above.

C. The Commission Should Postpone Implementation Of The New Federal Plan.

In light of the fact that the Commission's proposed methodology (if not modified) would result in a dramatically increased USF when such an increase is not warranted, the

[4] Even for states that have zone density pricing for unbundled network elements, support should still be calculated at the study area level, because UNEs remain unavailable as a practical matter due to excessive "glue" charges, nonfunctional operations support systems, and other anticompetitive conditions.

Commission should also consider simply postponing implementation of the new universal service system. Because the underlying predicate for the implementation of a new universal service system -- the development of local competition -- has not materialized, the Commission has time to design and implement a better system.

As the Commission has recognized, Congress enacted Section 254 to establish a new universal service system that could survive in a competitive environment. Under the prevailing scheme, the support for universal service is comprised of a combination of explicit programs and implicit subsidies embedded in the rates for other services. Congress understood, however, that under the Act new entrants would be able to offer competing services at cost-based rates, thus forcing the incumbents to lower their prices and lose these sources of implicit subsidies. Section 254 therefore requires the Commission, working with the Joint Board, to establish explicit and competitively neutral mechanisms to replace the implicit subsidies that would be competed away by new entrants, and it authorizes the Commission to establish a "timetable" for the implementation of that system that is consistent with the purposes of the statute. Section 254(a)(2). Expecting competition to develop quickly, the Commission decided in the *Universal Service Order* that the new federal system for high cost support would be implemented for non-rural LECs on January 1, 1999.

Local competition has not yet developed, however, and therefore the impetus for the implementation of the new system is not present. Indeed, local competition has been thwarted by a number of changed circumstances that the Commission could not have taken into account when it established the original January 1, 1999 date for implementation of the new USF. In particular, the availability of UNEs, which are the principal short term avenue for entry that would allow competitors to provide cost-based service of the sort that would threaten the erosion of implicit subsidies, has been severely undermined. For example, the Eighth Circuit has vacated key portions of the Commission's rules concerning UNE combinations,[5] which has allowed incumbent LECs to effectively foreclose UNE-based competition by imposing onerous and anticompetitive conditions on the use of such combinations. The Eighth Circuit has also vacated the Commission's rules on UNE pricing,[6] and as a result new entrants do not uniformly have access to UNEs at economic cost. Some incumbents also continue to refuse to provide shared transport as a network element, despite the unstayed orders of the Commission, and that refusal independently renders much UNE-based competition infeasible. Competition of all types is further hindered by the fact that no incumbent LEC currently offers nondiscriminatory access to operations support system interfaces. The incumbent LECs have also filed countless lawsuits all over the country to undermine the requirements of the Act and to preclude competitive entry. For all of these reasons, local competition has not developed and there is little prospect that significant competition will develop in the foreseeable future.[7]

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[5] *Iowa Utilities Bd.* v. *FCC*, 120 F.3d 753 (8th Cir. 1997), *cert. granted sub nom. AT&T Corp., et al.* v. *Iowa Utilities Bd.*, Nos. 97-827, et al.

[6] *Id.*

[7] *See generally Request for Amendment of the Commission's Rules Regarding Access Charge Reform and Price Cap Performance Review for Local Exchange Carriers*, RM No.
(continued...)

Therefore, implementation of the new federal plan is not necessary at this time. Indeed, implementation would be counterproductive if it caused federal funding to increase. For the time being, the Commission should continue to calculate universal service support for the non-rural LECs under the existing explicit federal programs. Specifically, these include the High Cost Fund and Long Term Support, which today total approximately $340 million for the non-rural LECs.

If the Commission postpones implementation of the USF, it should condition implementation of the new federal USF in any state on a showing of robust competition in that state. Specifically, implementation of the new USF for a LEC in a given state (to be computed at the study area level) if *both* of the following criteria are satisfied:

(A) For each study area for which the LEC seeks support, it must demonstrate a loss of at least 15 percent in the number of customer access lines supplied relative to the number that were supplied on the date of the proposed plan's adoption by the FCC. A LEC must further demonstrate that the primary cause of these reductions in customer access line sales has been substitution to competitive carriers, and that they are not due merely to either sale of exchanges, customer migration to different services, or local demographic trends.

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[7] (...continued)
9210, Comments of AT&T, pp. 8-16 (filed January 30, 1998); *id.*, Reply Comments of AT&T, pp. 3-7 (filed February 17, 1998).

(B) The LEC must demonstrate that for its entire Study Area, its return on its interstate operations, as reflected in the ARMIS 492 results, has fallen below the level that would trigger a lower formula adjustment under the FCC's price cap rules.

This test would allow the Commission to gauge directly when a given LEC's implicit subsidies are actually being threatened by competition.

II. THE COMMISSION SHOULD NOT ADOPT THE OTHER PROPOSED ALTERNATIVES FOR CALCULATING HIGH COST SUPPORT.

The Commission should not adopt any of the numerous other proposals that have been submitted in these proceedings over the last year. The underlying premises of these various plans are flawed, and, more importantly, each of these proposals would explode the size of the federal fund. As shown above, any increase in the federal USF is entirely unjustified, and therefore these alternative plans should be rejected.

A. The Commission Should Not Adopt The Majority State Members Or The Ad Hoc Proposal, Both Of Which Rely On An Average Cost Benchmark.

The Joint Board recommended, and the Commission adopted, a benchmark based on average revenues per line. *Universal Service Order*, ¶¶ 257-67. Both the Majority State Members of that Joint Board and the Ad Hoc Telecommunications Users Committee ("Ad Hoc") recommend basing the benchmark on average cost instead, but the Commission should reject these proposals.

The Majority State Members' proposal is the simpler of the two: the only change from the Commission's original methodology would be to base the benchmark on the nationwide average forward-looking cost of service. This change would reduce the benchmark for residential services to around $19, from the Commission's current estimate of $31. The result would be a dramatic increase in the size of high cost support (and the resulting federal 25 percent share).

The Commission should not adopt this proposed modification. The benchmark should be derived from revenues, not from costs, for two reasons. First, reliance on cost would be inconsistent with Section 254(b)(3), which establishes the principle that universal service support should facilitate rates in high cost areas that are "reasonably comparable" to those in urban areas. The measure of rates is revenues, not the underlying cost. *See Universal Service Order*, ¶ 266.

Second, as the Commission correctly found in the *Universal Service Order* (¶ 266), an average cost measure would not fully account for the revenues that are already being used to support high cost services. Therefore, a benchmark based on average cost would make the USF too large and would duplicate existing support. Indeed, under the Majority State Members' proposal, high cost support to all non-rural LECs under the Commission's hold harmless approach would increase from $340 million to an astonishing $1.39 billion, and support to the major non-rural LECs would increase almost *tenfold* (from $110 million to $1.0 billion).[8] Such an expansion of the USF is entirely unwarranted and should be rejected.

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[8] These estimates are based on the HAI 5.0a model, and assume that support will be calculated on a wire center basis. Even on a study area basis, total support would increase to $790 million, and support to the major non-rural LECs would almost quadruple to $430 (continued...)

The Ad Hoc proposal is a more complicated five step process. See Public Notice at 5-6. In essence, however, it is quite similar to the Majority State Members' plan because federal support would ultimately be based on the extent to which a state's average cost per line deviates from the national average cost per line. As explained above, the focus on average cost per line is inconsistent with Section 254(b)(3) and would greatly increase the size of the federal USF, and therefore the Ad Hoc plan should be rejected as well.[9]

B. The Commission Should Not Adopt U S WEST's IHCAP Proposal Or The Other Proposals That Contain Variable Benchmarks Or Percentages of Federal Support.

U S WEST, GTE, and the South Dakota Public Service Commission have each proposed different methodologies that depend on multiple, varying benchmarks. The Commission should reject these proposals as well.

Under U S WEST's proposal, which is also known as the Interstate High Cost Affordability Plan ("IHCAP"), the FCC would establish two benchmarks, a "Primary Benchmark" and a "Super Benchmark." The federal USF would fund 25% of the amount

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[8] (...continued)
million. *See* Attachment 3.

[9] The Ad Hoc plan is also fatally flawed in a number of other ways. Most notably, Ad Hoc proposes to apply its methodology immediately to all carriers, rural and non-rural, but Ad Hoc has provided no evidence that its analysis applies equally to rural carriers.

necessary for high cost support as long as the cost is between the Primary and the Super Benchmark, and it would fund 100% of any costs above the Super Benchmark.

This plan should be rejected for two basic reasons. First, if calculated on a wire center basis, U S WEST's approach would dramatically increase the size of the fund. If one accepts U S WEST's assumptions that the Primary Benchmark will be $30 and the Super Benchmark will be $50, high cost support for the major non-rural LECs would soar from the current $110 million to $980 million under the Commission's hold harmless approach.[10] Not incidentally, much of that increase would flow to U S WEST, since most of the states in which forward-looking cost exceeds $50 are in U S WEST's territory. The total amount of high cost support to all non-rural LECs would also explode, from the current $340 million to $1.36 billion.[11]

Increases in the USF of that magnitude would be entirely inappropriate. The sheer size of those increases would be due mostly to the fact that, under U S WEST's plan, support is calculated on a wire center basis. As explained above, however, USF support should be evaluated at the study area level, not at the wire center level.[12]

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[10] These estimates are based on the HAI 5.0a model, and on the assumption that support is calculated on a wire center basis. *See* Attachment 3.

[11] This estimate is based on the HAI model. *See* Attachment 3.

[12] If calculated on a study area basis, as it should be, U S WEST's plan would produce a federal fund only slightly larger than it would be under AT&T's proposal, since there are very few study areas in which forward-looking costs exceed $50. *See* Attachment 3.

U S WEST's proposal should also be rejected because it contains two benchmarks. The principal effect of U S WEST's second, "Super" benchmark is to substantially alter the extent to which some states will be cross-subsidizing other states. This change in the Commission's uniform 25 percent rule will create substantial imbalances in the amount of funding between the lower-cost states and the higher-cost states. The Commission should maintain the neutrality among the states that is one of the cornerstones of its uniform 25 percent methodology.

Both GTE's and the South Dakota Commission's proposals also contain multiple benchmarks, and therefore will create the same undesirable imbalances in interstate funding. GTE's proposal is similar to the U S WEST IHCAP plan, but includes both sliding scales of benchmarks and differences in the percentage of federal support. GTE at 21-22. Similarly, the South Dakota Commission asks the Commission to adopt either varying benchmarks or varying percentages of federal support. SDPUC at 2-5. Both should be rejected because, like the U S WEST plan, the result would be to increase the extent to which low cost states subsidize high cost states, which would disrupt neutrality in distribution.

C. The Commission Should Not Adopt Any Of The Telecommunications Industry Analysis Project's Four Proposals In Their Current Form.

The Telecommunications Industry Analysis Project ("TIAP") has put forward four different methodologies,[13] but the Commission should adopt none of the four.

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[13] Letter from Carol Weinhaus, TIAP, to Magalie Roman Salas, FCC, dated March 11, 1998.

The first of TIAP's proposals is simply to change the Commission's 25 percent/75 percent split of funding to a 40 percent/60 percent split. The result would be an enormous increase in the size of the federal fund. For non-rural companies alone, AT&T estimates that this plan would almost triple explicit federal funding, from the current $340 million to $1.04 billion under the Commission's hold harmless approach.[14] Such a huge increase in federal funding is completely unnecessary. As shown above, under AT&T's calculation (using HAI and the Commission's hold harmless approach), there would be no reduction in explicit federal funding for any state, even if the federal USF covers only 25 percent of the necessary support. Therefore, the Commission should not increase the percentage of federal funding.

TIAP's second proposal would be for the federal USF to fund 100 percent of the difference between the forward-looking economic cost and the benchmark, but limited to the one or two lowest density zones served by the non-rural LECs. This proposal would also cause the size of the federal fund to explode. Even if limited only to the lowest density zone, explicit federal funding for all non-rural LECs would increase from the current $340 million to $1.23 billion under the Commission's hold harmless approach (and the vast majority of that increase would flow to the major non-rural LECs). *See* Attachment 3.[15] As with TIAP's first proposal, there is simply no reason to adopt this change. Increasing the federal

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[14] These estimates are based on the HAI model, and assume that support is calculated on a wire center basis. *See* Attachment 3.

[15] According to TIAP's estimates, if the second lowest density zone is also included, the federal fund would approximately triple again, using either the HAI or BCPM models. See Public Notice at 6 n.28.

percentage of support to 100 percent would be unjustified, because as AT&T has shown, federal funding at the 25 percent level will not result in any reductions in federal support compared to current levels. Moreover, TIAP has provided no sound reason to limit funding arbitrarily to the lowest density zones, which would leave higher density zones where the forward-looking cost exceeds the benchmark without any federal support. The original methodology adopted in the *Universal Service Order* is more even-handed and more consistent with competitive neutrality.

TIAP's third and fourth proposals are very similar. Under both, the federal fund would cover 100 percent of high cost support, but it would be funded by a end-user surcharge. In TIAP Proposal #3, a flat surcharge would be assessed on every phone number;[16] in TIAP Proposal #4, the surcharge would be assessed on total revenues.

AT&T has long advocated using a competitively neutral, industry-wide, end-user surcharge to fund the federal USF, and therefore AT&T supports this one aspect of TIAP's third and fourth proposals. The other aspects of these proposals are unacceptable, however, and the Commission should reject them. By funding 100 percent of the high cost support, both of these approaches would greatly increase the size of the federal fund.

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[16] The surcharge would be calculated by dividing the total amount of the fund by the number of telephone numbers in service and by twelve months. *See* Public Notice at 6. Under both TIAP Proposals #3 and #4, the surcharge would not be a carrier charge per se; it would be a transaction between the end-user and the USF itself, with the carriers simply collecting the money on behalf of the USF.

D. The Commission Should Not Adopt BellSouth's Proposal.

The Commission should also reject BellSouth's proposal. Under BellSouth's plan, the FCC would size the fund to replace all explicit and implicit subsidies currently recovered in the interstate jurisdiction. In BellSouth's view, the interstate subsidies that currently are implicit are the primary interexchange carrier charge ("PICC") and the carrier common line charge ("CCLC"). BellSouth at 3. Therefore, under BellSouth's plan, the federal fund would be sized to cover (a) the amount of today's explicit federal programs, plus (b) the CCLC and the PICC.[17]

Today's PICC and CCLC together total about $3.5 billion, and therefore replacing this money dollar for dollar in the new explicit federal USF would result in a gigantic increase in the size of the fund. As shown above, such an increase is entirely unnecessary and would be counterproductive. *See* Section I, II.B. Moreover, BellSouth's plan is built on a false premise. The CCL and PICC are pure profit for the LECs; they are not necessary for universal service support. Therefore, the Commission should reject BellSouth's proposal.

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[17] BellSouth's plan contains no benchmark or uniform federal percentage of support. Rather, the FCC would determine the forward-looking economic cost of service in each state on a wire center basis; subtract the amounts to be funded through the federal USF (which would be the sum of today's explicit mechanisms plus the PICC and CCLC); and the difference would be the state's responsibility. BellSouth at 3 & Attachment 1.

CONCLUSION

For the reasons stated above, the Commission should adopt AT&T's proposal concerning the methodology for determining high cost support for non-rural companies, and it should postpone implementation of the new system until competition develops.

Respectfully submitted,

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